

**Floyd County Memorial Hospital**  
Accountants' Reports and Financial Statements  
June 30, 2006 and 2005



# Floyd County Memorial Hospital

June 30, 2006 and 2005

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## **Independent Accountants' Report on Financial Statements and Supplementary Information**

Board of Commissioners  
Floyd County Memorial Hospital  
Charles City, Iowa

We have audited the accompanying balance sheets of Floyd County Memorial Hospital as of June 30, 2006 and 2005 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd County Memorial Hospital as of June 30, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information is presented for purposes of additional analysis of the governmental financial statements rather than to present individual financial position changes in net assets and cash flows of the primary government and its component unit. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri  
August 18, 2006

# **Floyd County Memorial Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2006 and 2005**

#### ***Introduction***

This management's discussion and analysis of the financial performance of Floyd County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2006 and 2005. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### ***Financial Highlights***

- Cash decreased in 2006 by \$163,423 or 5% and increased in 2005 by \$244,046 or 7%.
- The Hospital's net assets increased in each of the past two years with a \$1,048,590 or 9% increase in 2006 and a \$1,337,026 or 13% increase in 2005.
- The Hospital reported operating income in both 2006 and 2005 of \$1,014,044 and \$1,345,379, respectively.
- Net nonoperating revenues increased by \$42,899 in 2006 compared to 2005.

#### ***Using This Annual Report***

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets***

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

### ***The Statement of Cash Flows***

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash during the reporting period.

### ***The Hospital's Net Assets***

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,048,590 or 9% in 2006 over 2005 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 2,450,911	\$ 2,296,115	\$ 2,437,661
Other current assets	3,574,060	3,633,242	2,562,489
Capital assets, net	7,462,786	6,978,981	6,568,689
Other noncurrent assets	<u>1,116,823</u>	<u>1,292,299</u>	<u>1,672,094</u>
Total assets	<u>\$ 14,604,580</u>	<u>\$ 14,200,637</u>	<u>\$ 13,240,933</u>
<b>Liabilities</b>			
Long-term debt, including current maturities	\$ 252,366	\$ 722,348	\$ 930,339
Other current and noncurrent liabilities	<u>1,429,455</u>	<u>1,604,120</u>	<u>1,773,451</u>
Total liabilities	<u>1,681,821</u>	<u>2,326,468</u>	<u>2,703,790</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	7,200,841	6,270,766	5,598,946
Unrestricted	<u>5,721,918</u>	<u>5,603,403</u>	<u>4,938,197</u>
Total net assets	<u>12,922,759</u>	<u>11,874,169</u>	<u>10,537,143</u>
Total liabilities and net assets	<u>\$ 14,604,580</u>	<u>\$ 14,200,637</u>	<u>\$ 13,240,933</u>

In 2006, there was a net increase of \$483,805 in Capital Assets due partially as a result of the completion of a major surgery remodel capital project. The payment of this project created a decrease in Other Noncurrent Assets and Other Current Assets.

In 2006, Long-term Debt of \$722,348 was paid off and a capital lease for computer hardware was approved for \$272,000. The computer hardware is the first phase of a \$1,300,000 new computer system, which will be installed over the next two years.

In 2006, an excess of net revenues over expenses was noted of \$1,048,590 and is included in total net assets, which resulted in an increase of 9%.

In 2005, there was an increase of \$1,070,753 in other current assets as a result of an increase in operating cash on hand of \$625,257 and an estimated receivable from third-party payers of \$415,000. The Hospital transfers cash on a monthly basis to an internally generated account for capital expenses. This capital expenditures account decreased 26%, or \$381,211, and is included in other noncurrent assets. This account decreased due to the capital asset expenditures that occurred this year.

In 2005, an excess of net revenues over expenses was noted of \$1,337,026, and is included in the total net assets, which resulted in an increase of 13%.

The decrease in long-term debt of \$207,991, or 22%, is reflective of monthly payments of principal on the long-term revenue bonds.

### ***Operating Results and Changes in the Hospital's Net Assets***

In 2006, the Hospital's net assets increased by \$1,048,590 or 9% as shown in Table 2. This increase is made up of several different components and represents a decrease of \$288,435 compared with the increase in net assets for 2005 of \$1,337,026.

**Table 2: Operating Results and Changes in Net Assets**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 16,170,425	\$ 16,019,237	\$ 14,983,319
Other operating revenues	<u>509,842</u>	<u>476,071</u>	<u>574,852</u>
Total operating revenues	<u>16,680,267</u>	<u>16,495,308</u>	<u>15,558,171</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	8,707,695	8,479,936	8,169,714
Medical professional fees	2,568,625	2,387,882	2,326,615
Depreciation	685,965	635,295	617,482
Other operating expenses	<u>3,703,938</u>	<u>3,646,816</u>	<u>3,275,434</u>
Total operating expenses	<u>15,666,223</u>	<u>15,149,929</u>	<u>14,389,245</u>
<b>Operating Income</b>	<u>1,014,044</u>	<u>1,345,379</u>	<u>1,168,926</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	102,265	76,089	16,576
Contributions	16,096	7,406	9,189
Interest expense	(49,690)	(49,361)	(62,621)
Income taxes – Aesculapuis	(23,790)	(44,260)	(28,424)
Minority interest - Aesculapuis	<u>(10,335)</u>	<u>1,773</u>	<u>(33,768)</u>
Total nonoperating revenues (expenses)	<u>34,546</u>	<u>(8,353)</u>	<u>(99,048)</u>
<b>Increase in Net Assets</b>	<u>\$ 1,048,590</u>	<u>\$ 1,337,026</u>	<u>\$ 1,069,878</u>

**Operating Income**

The first component of the overall change in the Hospital's net assets is its operating income or loss, generally the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating income. The Hospital is a County Hospital, but cannot levy property taxes. The Floyd County Supervisors can give the Hospital an amount annually as the County's budget allows. The Hospital received no amounts from the county in 2005 and 2006.



The operating income for 2006 decreased as compared to 2005. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$151,188 or 1%.
- An increase in salaries and wages and employee benefits of \$227,759 or 3%.
- An increase in other operating expenses of \$57,122 or 1.6%.
- An increase in nonoperating revenues/expenses of \$42,899.
- As of July 1, 2005, the Hospital stopped providing home health services. Gross revenue for 2005 for the home health department was \$622,972.

The operating income for 2005 increased as compared to 2004. The primary components of the increase in operating income are:

- An increase in net patient service revenues of \$1,035,918 or 7%.
- An increase in salaries and wages and employee benefits of \$310,222 or 4%.
- An increase in other operating expenses of \$371,382 or 11%.
- An increase in nonoperating revenues/expenses of \$90,695 or 92%.
- Gross patient service revenue increased in 2005 over 2004 because of an increase in gross charges of \$928,921 or 4.33%.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Investment income increased in 2006 as compared to 2005 while interest expense remained about the same. Also, between 2005 and 2006, investment income is up due to higher interest rates.

### ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At June 30, 2006, the Hospital had \$7,462,786 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2006, the Hospital had additions of capital assets of \$1,169,770. In 2005, the Hospital expended \$624,760 on a capital project to renovate the operating rooms as well as purchased other new property and equipment costing \$420,827.

## Debt

At June 30, 2006, the Hospital had \$252,366 recorded as a capital lease, which was new in 2006. At June 30, 2005, the Hospital had \$722,348, in revenue capital loan notes outstanding, which were paid off in 2006. The Hospital issued no new debt in 2005. The Hospital's formal debt issuances are subject to limitations imposed by state law.

## ***Factors Bearing on Floyd County Memorial Hospital's Future***

At the time these financial statements were prepared and audited, the Hospital was aware of two existing circumstances that could affect its financial health in the future.

- The Hospital is in the process of obtaining a new information technology system. Total cost for the project is expected to be about \$1,300,000. It is anticipated implementation of the new system will begin in 2007 and be completed in 2008. The Hospital intends to fund the project internally and with a short-term loan, if needed.
- The Hospital is also pursuing a construction renovation project for the acute patient care center. This project is expected to cost \$4,500,000 and will be funded internally and with a short-term loan, if needed.

## ***Contacting the Hospital's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administrator or Chief Financial Officer by telephoning (641) 228-6830.

# Floyd County Memorial Hospital

## Balance Sheets

June 30, 2006 and 2005

### Assets

	<u>2006</u>	<u>2005</u>
<b>Current Assets</b>		
Cash	\$ 2,512,085	\$ 2,564,281
Patient accounts receivable, net of allowance; 2006 – \$1,198,000, 2005 – \$1,109,000	2,450,911	2,296,115
Other receivables	40,916	48,473
Supplies	520,967	510,886
Prepaid expenses	94,092	94,602
Estimated amounts due from third-party payers	<u>406,000</u>	<u>415,000</u>
Total current assets	<u>6,024,971</u>	<u>5,929,357</u>
<b>Noncurrent Cash</b>		
Internally designated for capital and other expenditures	<u>955,968</u>	<u>1,067,195</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>7,462,786</u>	<u>6,978,981</u>
<b>Other Assets</b>		
Deferred financing costs	—	14,133
Investments	<u>160,855</u>	<u>210,971</u>
Total other assets	<u>160,855</u>	<u>225,104</u>
<b>Total Assets</b>	<u>\$ 14,604,580</u>	<u>\$ 14,200,637</u>

## Liabilities and Net Assets

	<u>2006</u>	<u>2005</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 44,415	\$ 219,723
Accounts payable	351,118	382,085
Accrued expenses		
Vacation pay	362,072	363,470
Payroll and related deductions	262,150	392,629
Health insurance	<u>263,000</u>	<u>266,000</u>
Total current liabilities	1,282,755	1,623,907
<b>Minority Interest</b>	191,115	199,936
<b>Long-term Debt</b>	<u>207,951</u>	<u>502,625</u>
Total liabilities	<u>1,681,821</u>	<u>2,326,468</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	7,200,841	6,270,766
Unrestricted	<u>5,721,918</u>	<u>5,603,403</u>
Total net assets	<u>12,922,759</u>	<u>11,874,169</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 14,604,580</u>	<u>\$ 14,200,637</u>

**Floyd County Memorial Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 16,777,541	\$ 16,614,367
Less provision for uncollectible accounts	<u>607,116</u>	<u>595,130</u>
Net patient service revenue	16,170,425	16,019,237
Other	<u>509,842</u>	<u>476,071</u>
Total operating revenues	<u>16,680,267</u>	<u>16,495,308</u>
<b>Operating Expenses</b>		
Salaries and wages	6,208,558	6,157,049
Employee benefits	2,499,137	2,322,887
Medical professional fees	2,568,625	2,387,882
Supplies and expenses	1,949,787	2,002,688
General services	894,728	823,915
Administrative services	859,423	820,213
Depreciation	<u>685,965</u>	<u>635,295</u>
Total operating expenses	<u>15,666,223</u>	<u>15,149,929</u>
<b>Operating Income</b>	<u>1,014,044</u>	<u>1,345,379</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	102,265	76,089
Contributions	16,096	7,406
Interest expense	(49,690)	(49,361)
Income taxes – Aesculapuis	(23,790)	(44,260)
Minority interest – Aesculapuis	<u>(10,335)</u>	<u>1,773</u>
Total nonoperating revenues (expenses)	<u>34,546</u>	<u>(8,353)</u>
<b>Increase in Net Assets</b>	1,048,590	1,337,026
<b>Net Assets, Beginning of the Year</b>	<u>11,874,169</u>	<u>10,537,143</u>
<b>Net Assets, End of the Year</b>	<u>\$ 12,922,759</u>	<u>\$ 11,874,169</u>

**Floyd County Memorial Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 16,024,629	\$ 15,598,600
Payments to suppliers	(6,323,190)	(6,159,065)
Payments to employees	(8,842,572)	(8,334,982)
Other receipts and payments, net	<u>515,909</u>	<u>470,598</u>
Net cash provided by operating activities	<u>1,374,776</u>	<u>1,575,151</u>
<b>Noncapital Financing Activities</b>		
Unrestricted contributions	<u>16,096</u>	<u>7,406</u>
Net cash provided by noncapital financing activities	<u>16,096</u>	<u>7,406</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(888,191)	(1,103,587)
Principal payments on long-term debt	(741,982)	(207,991)
Interest paid on long-term debt	(35,557)	(44,898)
Proceeds from sale of capital assets	<u>2,000</u>	<u>—</u>
Net cash used in capital and related financing activities	<u>(1,663,730)</u>	<u>(1,356,476)</u>
<b>Investing Activities</b>		
Income on investments	<u>109,435</u>	<u>17,965</u>
Net cash provided by investing activities	<u>109,435</u>	<u>17,965</u>
<b>Increase (Decrease) in Cash</b>	(163,423)	244,046
<b>Cash, Beginning of Year</b>	<u>3,631,476</u>	<u>3,387,430</u>
<b>Cash, End of Year</b>	<u>\$ 3,468,053</u>	<u>\$ 3,631,476</u>

(Continued)

**Floyd County Memorial Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 2,512,085	\$ 2,564,281
Noncurrent cash		
Internally designated	<u>955,968</u>	<u>1,067,195</u>
Total cash	<u>\$ 3,468,053</u>	<u>\$ 3,631,476</u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 1,014,044	\$ 1,345,379
Items not requiring (providing) cash		
Depreciation	685,965	635,295
Amortization	30,547	20,877
Gain on sale of assets	(2,000)	—
Changes in		
Patient and other accounts receivable, net	(147,239)	157,977
Supplies	(10,081)	(25,023)
Prepaid expenses	(30,037)	(42,781)
Accounts payable and accrued expenses	(175,423)	45,610
Estimated amounts due to third-party payers	<u>9,000</u>	<u>(562,183)</u>
Net cash provided by operating activities	<u>\$ 1,374,776</u>	<u>\$ 1,575,151</u>
 <b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ 9,579	\$ —
Capital lease obligation incurred for capital asset	272,000	—

# **Floyd County Memorial Hospital**

## **Notes to Financial Statements**

**June 30, 2006 and 2005**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations***

The Floyd County Memorial Hospital (Hospital) is a county public hospital under Chapter 37 of the Code of Iowa. The Hospital and Health Care of Floyd County L.C. (HCFC) are collectively referred to here as the Organization. The Organization primarily earns revenues by providing health care services to patients on an inpatient and outpatient basis. The Hospital is exempt from income taxes as a political subdivision of the State of Iowa. HCFC is organized pursuant to the Iowa Limited Liability Company Act Chapter 490A.

#### ***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

#### ***Reporting Entity***

As required by accounting principles generally accepted in the United States of America, these financial statements present the Hospital and its component unit, an entity for which the Hospital is considered to be financially accountable.

The determination of financial accountability includes consideration of a number of criteria, including (1) the Hospital's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Hospital, and (3) that entity's fiscal dependency on the Hospital.



# **Floyd County Memorial Hospital**

## **Notes to Financial Statements**

**June 30, 2006 and 2005**

Health Care of Floyd County L.C. is consolidated into the Hospital's financial statements. HCFC is a legally separate limited liability corporation that is, in substance, a part of the Hospital's operations. It is organized primarily to hold certain assets for the Hospital. HCFC owns shares of a corporation whose earnings and losses are included in the financial statements. HCFC has agreed to purchase any remaining shares of the corporation, not to exceed \$100,000 in any year they are offered.

Data of HCFC is combined with data of the Hospital for financial reporting purposes using the blending method. Transactions between the Hospital and HCFC are eliminated in preparation of the financial statements.

### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payers and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are revised in future periods as final adjustments become known.

### ***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

### ***Deposits, Investments and Investment Income***

The Hospital's deposits include demand deposits and money market accounts. HCFC's investment in a corporation is reported using the blended method. The Hospital also has investments in partnerships holding mobile medical equipment reported on the equity method.

Investment income includes interest income on deposits and return on other investments.

# **Floyd County Memorial Hospital**

## **Notes to Financial Statements**

**June 30, 2006 and 2005**

### ***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### ***Noncurrent Cash***

Noncurrent cash represents internally designated assets set aside by the Board of Commissioners for future capital improvements and other expenditures over which the Board retains control and may at its discretion subsequently use for other purposes.

### ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital.

Land improvements	15 to 20 years
Buildings, improvements and fixed equipment	20 to 40 years
Major moveable equipment, computers and furniture	3 to 7 years

### ***Medical Malpractice Coverage and Claims***

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The cost of the coverage is accrued over the coverage period and includes both the minimum premium plus any estimated additional costs related to claims during the period. Adjustments of estimated to actual expenses after the policy terms are included in the period such adjustments are determined.

### ***County Assistance***

The Hospital operates under Iowa statutes as a County hospital and is entitled to receive a portion of the taxes levied by the County if approved by the County Supervisors. The Hospital received no support in 2005 or 2006. Such proceeds when received would be considered unrestricted as to use by the Hospital and would be used to support operations.

# **Floyd County Memorial Hospital**

## **Notes to Financial Statements**

**June 30, 2006 and 2005**

### ***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of the notes payable. Such costs are being amortized over the term of the respective notes payable using the straight-line method.

### ***Risk Management***

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

### ***Compensated Absences***

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off. Compensated absence liabilities are computed using the regular pay in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

### ***Net Assets***

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2006 and 2005

### Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

**Medicare.** The Hospital is designated as a Critical Access Hospital (CAH). Under this designation, inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

**Medicaid.** Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid program.

Approximately 58% and 52% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2006 and 2005, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

### Note 3: Deposits, Investments and Investment Income

#### **Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of State law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2006 and 2005. The Hospital's deposits in banks at June 30, 2006 and 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2006 and 2005

### ***Investments***

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had limited investments in partnerships holding mobile medical equipment at June 30, 2006 and 2005.

### ***Summary of Carrying Value***

The carrying value of deposits included in the balance sheets is as follows:

	<u>2006</u>	<u>2005</u>
Deposits	\$ <u>3,468,053</u>	\$ <u>3,631,476</u>
Included in the following balance sheet captions		
Cash	\$ 2,512,085	\$ 2,564,281
Noncurrent cash	<u>955,968</u>	<u>1,067,195</u>
	\$ <u>3,468,053</u>	\$ <u>3,631,476</u>

### ***Investment Income***

Investment income for the years ended June 30, 2006 and 2005 consisted of:

	<u>2006</u>	<u>2005</u>
Interest	\$ 154,474	\$ 104,472
Return on other investments	<u>(52,209)</u>	<u>(28,383)</u>
Total investment income	\$ <u>102,265</u>	\$ <u>76,089</u>

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2006 and 2005

### Note 4: Capital Assets

Consolidated capital assets activity for the years ended June 30, 2006 and 2005 was:

<b>2006</b>	<b>Balance June 30, 2005</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2006</b>
Land and improvements	\$ 449,402	\$ 8,125			\$ 457,527
Building and improvements	8,514,699	—		\$ 849,651	9,364,350
Fixed equipment	1,553,652	47,236		—	1,600,888
Major moveable equipment	4,392,923	605,115	\$ 247,291	—	4,750,747
Construction in progress	<u>624,760</u>	<u>509,294</u>	<u>—</u>	<u>(849,651)</u>	<u>284,403</u>
	<u>15,535,436</u>	<u>1,169,770</u>	<u>247,291</u>	<u>—</u>	<u>16,457,915</u>
Less accumulated depreciation					
Land improvements	253,327	20,572	—	—	273,899
Building and improvements	4,016,317	258,646	—	—	4,274,963
Fixed equipment	861,314	90,266	—	—	951,580
Major moveable equipment	<u>3,425,497</u>	<u>316,481</u>	<u>247,291</u>	<u>—</u>	<u>3,494,687</u>
Total accumulated depreciation	<u>8,556,455</u>	<u>685,965</u>	<u>247,291</u>	<u>—</u>	<u>8,995,129</u>
Capital assets, net	<u>\$ 6,978,981</u>	<u>\$ 483,805</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,462,786</u>
<b>2005</b>	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2005</b>
Land and improvements	\$ 428,569	\$ 20,833		\$ —	\$ 449,402
Building and improvements	8,550,731	26,486	\$ 62,518	—	8,514,699
Fixed equipment	1,482,156	71,496	—	—	1,553,652
Major moveable equipment	4,336,639	302,012	245,728	—	4,392,923
Construction in progress	<u>—</u>	<u>624,760</u>	<u>—</u>	<u>—</u>	<u>624,760</u>
	<u>14,798,095</u>	<u>1,045,587</u>	<u>308,246</u>	<u>—</u>	<u>15,535,436</u>
Less accumulated depreciation					
Land improvements	229,262	24,065	—	—	253,327
Building and improvements	3,846,258	232,577	62,518	—	4,016,317
Fixed equipment	767,511	93,803	—	—	861,314
Major moveable equipment	<u>3,386,375</u>	<u>284,850</u>	<u>245,728</u>	<u>—</u>	<u>3,425,497</u>
Total accumulated depreciation	<u>8,229,406</u>	<u>635,295</u>	<u>308,246</u>	<u>—</u>	<u>8,556,455</u>
Capital assets, net	<u>\$ 6,568,689</u>	<u>\$ 410,292</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,978,981</u>

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2006 and 2005

### Note 5: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2006 and 2005 follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
<b>2006</b>					
Hospital Revenue Capital					
Loan Notes (A)	\$ 722,348	\$ 0	\$ 722,348	\$ 0	\$ 0
Capital lease obligation (B)	<u>—</u>	<u>272,000</u>	<u>19,634</u>	<u>252,366</u>	<u>44,415</u>
	<u>\$ 722,348</u>	<u>\$ 272,000</u>	<u>\$ 741,982</u>	<u>\$ 252,366</u>	<u>\$ 44,415</u>
<b>2005</b>	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Hospital Revenue Capital					
Loan Notes (A)	<u>\$ 930,339</u>	<u>\$ 0</u>	<u>\$ 207,991</u>	<u>\$ 722,348</u>	<u>\$ 219,723</u>

(A) Hospital Revenue Capital Loan Notes, Series 2000, were paid off during 2006.

(B) The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at June 30, 2006, totaled \$249,333, net of accumulated depreciation of \$22,667. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 11.4% together with the present value of the future minimum lease payments as of June 30, 2006.

Year Ending June 30,	
2007	\$ 71,016
2008	71,016
2009	71,016
2010	71,016
2011	<u>41,426</u>
Total minimum lease payments	325,490
Less amount representing interest	<u>73,124</u>
Present value of future minimum lease payments	<u>\$ 252,366</u>

**Floyd County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**Note 6: Operating Leases**

Noncancellable operating leases for buildings and equipment expire in various years through 2008.

Future minimum lease payments at June 30, 2006, were:

2007	\$ 239,112
2008	<u>144,188</u>
Future minimum lease payments	<u>\$ 383,300</u>

Rental expense for all operating leases totaled \$238,930 and \$247,537 for 2006 and 2005, respectively.

**Note 7: Defined Benefit Pension Plan**

***Plan Description***

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The Plan provides retirement and death benefits, which are established by State statute, to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Plan at IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

***Funding Policy***

Each plan member is required to contribute 3.70% of his or her annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2006 and 2005. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2006, 2005 and 2004 were \$354,657, \$350,759 and \$337,412, respectively, which equaled the required contributions for each year.



# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2006 and 2005

### Note 8: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2006 and 2005 consisted of:

	2006	2005
Medicare	\$ 882,342	\$ 648,490
Medicaid	107,542	186,337
Third-party payers	888,941	756,199
Patients	1,610,793	1,657,601
Clinics	<u>159,293</u>	<u>156,488</u>
Total	3,648,911	3,405,115
Less allowance for uncollectible accounts	<u>1,198,000</u>	<u>1,109,000</u>
Patient accounts receivable, net	<u>\$ 2,450,911</u>	<u>\$ 2,296,115</u>

### Note 9: Employee Health Insurance Claims

Liabilities include an accrual for claims that have been incurred but not reported for self-insured health insurance. Claims liabilities from asserted claims and from unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including relevant trend factors. Activity in the Hospital's accrued health insurance claims liability during 2006 and 2005 is summarized as follows:

	2006	2005
Balance, beginning of year	\$ 266,000	\$ 215,000
Current year claims and changes in estimates	1,631,287	1,318,727
Claim payments	<u>(1,634,287)</u>	<u>(1,267,727)</u>
Balance, end of year	<u>\$ 263,000</u>	<u>\$ 266,000</u>

### Note 10: Construction in Progress

The Hospital, at June 30, 2006, had \$284,403 in construction in progress related to projects, with the largest project relating to the purchase of a new computer system. The estimated cost to complete the various projects is \$1,067,712 to be funded by assets of the Hospital.

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2006 and 2005

### Note 11: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Commissioners annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The following is reconciliation between reported amounts and cash basis presentation as well as a comparison to budget of the Hospital for the year ended June 30, 2006:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Other revenues/receipts	\$ 16,735,588	\$ (608,221)	\$ 16,127,367	\$ 19,285,480
Expenses/disbursements	<u>15,686,998</u>	<u>689,258</u>	<u>16,376,256</u>	<u>19,085,480</u>
	1,048,590	(1,297,479)	(248,889)	200,000
Balance, beginning of year	<u>11,874,169</u>	<u>(7,424,462)</u>	<u>4,449,707</u>	<u>4,449,707</u>
Balance, end of year	<u>\$ 12,922,759</u>	<u>\$ (8,721,941)</u>	<u>\$ 4,200,818</u>	<u>\$ 4,649,707</u>

### Note 12: Subsequent Event – Health Care of Floyd County

On July 1, 2006, the Hospital provided \$300,000 to HCFC to purchase the remaining shares of a corporation held by HCFC for the Hospital.

## **Supplementary Information**

**Floyd County Memorial Hospital**  
**Consolidating Balance Sheets**  
**June 30, 2006**

**Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash	\$ 2,512,085			\$ 2,512,085
Patient accounts receivable, net of allowance of \$1,198,000	2,450,911			2,450,911
Other receivables	40,916			40,916
Supplies	520,967			520,967
Prepaid expenses	94,092			94,092
Estimated amounts due from third-party payers	<u>406,000</u>			<u>406,000</u>
Total current assets	<u>6,024,971</u>			<u>6,024,971</u>
<b>Noncurrent Cash</b>				
Internally designated for capital and other expenditures	<u>955,968</u>			<u>955,968</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>6,890,876</u>	\$ <u>571,910</u>		<u>7,462,786</u>
<b>Other Assets</b>				
Investments	<u>732,765</u>		\$ <u>(571,910)</u>	<u>160,855</u>
Total other assets	<u>732,765</u>		<u>(571,910)</u>	<u>160,855</u>
<b>Total Assets</b>	<u>\$14,604,580</u>	<u>\$ 571,910</u>	<u>\$ (571,910)</u>	<u>\$14,604,580</u>

**Floyd County Memorial Hospital**  
**Consolidating Balance Sheets (Continued)**  
**June 30, 2006**

**Liabilities and Net Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 44,415			\$ 44,415
Accounts payable	351,118			351,118
Accrued expenses				
Vacation pay	362,072			362,072
Payroll and related deductions	262,150			262,150
Health insurance	<u>263,000</u>			<u>263,000</u>
Total current liabilities	1,282,755			1,282,755
<b>Minority Interest</b>	191,115			191,115
<b>Long-term Debt</b>	<u>207,951</u>			<u>207,951</u>
Total liabilities	<u>1,681,821</u>			<u>1,681,821</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	6,628,931	\$ 571,910		7,200,841
Unrestricted	<u>6,293,828</u>	<u>          </u>	\$ <u>(571,910)</u>	<u>5,721,918</u>
Total net assets	<u>12,922,759</u>	<u>571,910</u>	<u>(571,910)</u>	<u>12,922,759</u>
<b>Total Liabilities and Net Assets</b>	<u>\$14,604,580</u>	<u>\$ 571,910</u>	<u>\$ (571,910)</u>	<u>\$ 14,604,580</u>

**Floyd County Memorial Hospital**  
**Consolidating Balance Sheets (Continued)**  
**June 30, 2005**

**Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash	\$ 2,557,599	\$ 6,682		\$ 2,564,281
Patient accounts receivable, net of allowance of \$1,109,000	2,296,115			2,296,115
Other receivables	48,473			48,473
Supplies	510,886			510,886
Prepaid expenses	94,602			94,602
Estimated amounts due from third-party payers	<u>415,000</u>	<u>          </u>		<u>415,000</u>
Total current assets	<u>5,922,675</u>	<u>6,682</u>		<u>5,929,357</u>
<b>Noncurrent Cash</b>				
Internally designated for capital and other expenditures	<u>1,067,195</u>			<u>1,067,195</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>6,385,854</u>	<u>593,127</u>		<u>6,978,981</u>
<b>Other Assets</b>				
Deferred financing costs	14,133			14,133
Investments	<u>810,780</u>		\$ <u>(599,809)</u>	<u>210,971</u>
Total other assets	<u>824,913</u>		<u>(599,809)</u>	<u>225,104</u>
<b>Total Assets</b>	<u>\$ 14,200,637</u>	<u>\$ 599,809</u>	<u>\$ (599,809)</u>	<u>\$ 14,200,637</u>

**Floyd County Memorial Hospital**  
**Consolidating Balance Sheets (Continued)**  
**June 30, 2005**

**Liabilities and Net Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 219,723			\$ 219,723
Accounts payable	382,085			382,085
Accrued expenses				
Vacation pay	363,470			363,470
Payroll and related deductions	392,629			392,629
Health insurance	<u>266,000</u>			<u>266,000</u>
Total current liabilities	1,623,907			1,623,907
<b>Minority Interest</b>	199,936			199,936
<b>Long-term Debt</b>	<u>502,625</u>			<u>502,625</u>
Total liabilities	<u>2,326,468</u>			<u>2,326,468</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	5,677,639	\$ 593,127		6,270,766
Unrestricted	<u>6,196,530</u>	<u>6,682</u>	\$ (599,809)	<u>5,603,403</u>
Total net assets	<u>11,874,169</u>	<u>599,809</u>	<u>(599,809)</u>	<u>11,874,169</u>
<b>Total Liabilities and Net Assets</b>	<u>\$14,200,637</u>	<u>\$ 599,809</u>	<u>\$ (599,809)</u>	<u>\$14,200,637</u>

**Floyd County Memorial Hospital**  
**Consolidating Statement of Revenues, Expenses**  
**and Changes in Net Assets**  
**Year Ended June 30, 2006**

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 16,777,541			\$ 16,777,541
Less provision for uncollectible accounts	<u>607,116</u>			<u>607,116</u>
Net patient service revenue	16,170,425			16,170,425
Other	<u>370,524</u>	\$ <u>213,204</u>	\$ <u>(73,886)</u>	<u>509,842</u>
Total operating revenues	<u>16,540,949</u>	<u>213,204</u>	<u>(73,886)</u>	<u>16,680,267</u>
<b>Operating Expenses</b>				
Salaries and wages	6,208,558			6,208,558
Employee benefits	2,499,137			2,499,137
Medical professional fees	2,568,625			2,568,625
Supplies and expenses	1,949,787			1,949,787
General services	912,138	56,476	(73,886)	894,728
Administrative services	834,315	25,108		859,423
Depreciation	<u>664,748</u>	<u>21,217</u>		<u>685,965</u>
Total operating expenses	<u>15,637,308</u>	<u>102,801</u>	<u>(73,886)</u>	<u>15,666,223</u>
<b>Operating Income</b>	<u>903,641</u>	<u>110,403</u>	<u>0</u>	<u>1,014,044</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	102,075	190		102,265
Contributions	16,096			16,096
Interest expense	(49,690)			(49,690)
Income taxes – Aesculapuis		(23,790)		(23,790)
Dividends paid – Aesculapuis	76,468		(76,468)	0
Minority interest – Aesculapuis	<u></u>	<u></u>	<u>(10,335)</u>	<u>(10,335)</u>
Total nonoperating revenues (expenses)	<u>144,949</u>	<u>(23,600)</u>	<u>(86,803)</u>	<u>34,546</u>
<b>Increase in Net Assets</b>	1,048,590	86,803	(86,803)	1,048,590
<b>Net Assets, Beginning of the Year</b>	11,874,169	599,809	(599,809)	11,874,169
<b>Dividends Paid</b>	<u></u>	<u>(114,702)</u>	<u>114,702</u>	<u>0</u>
<b>Net Assets, End of the Year</b>	<u>\$ 12,922,759</u>	<u>\$ 571,910</u>	<u>\$ (571,910)</u>	<u>\$ 12,922,759</u>



**Floyd County Memorial Hospital**  
**Consolidating Statement of Revenues, Expenses**  
**and Changes in Net Assets (Continued)**  
**Year Ended June 30, 2005**

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 16,614,367			\$ 16,614,367
Less provision for uncollectible accounts	<u>595,130</u>			<u>595,130</u>
Net patient service revenue	16,019,237			16,019,237
Other	<u>339,634</u>	\$ <u>210,333</u>	\$ <u>(73,896)</u>	<u>476,071</u>
Total operating revenues	<u>16,358,871</u>	<u>210,333</u>	<u>(73,896)</u>	<u>16,495,308</u>
<b>Operating Expenses</b>				
Salaries and wages	6,157,049			6,157,049
Employee benefits	2,322,887			2,322,887
Medical professional fees	2,387,882			2,387,882
Supplies and expenses	2,002,688			2,002,688
General services	828,157	69,654	(73,896)	823,915
Administrative services	798,144	22,069		820,213
Depreciation	<u>613,956</u>	<u>21,339</u>	<u>          </u>	<u>635,295</u>
Total operating expenses	<u>15,110,763</u>	<u>113,062</u>	<u>(73,896)</u>	<u>15,149,929</u>
<b>Operating Income</b>	<u>1,248,108</u>	<u>97,271</u>	<u>0</u>	<u>1,345,379</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	75,873	216		76,089
Contributions	7,406			7,406
Interest expense	(49,361)			(49,361)
Income taxes – Aesculapuis		(44,260)		(44,260)
Dividends paid – Aesculapuis	55,000		(55,000)	0
Minority interest – Aesculapuis	<u>          </u>	<u>          </u>	<u>1,773</u>	<u>1,773</u>
Total nonoperating revenues (expenses)	<u>88,918</u>	<u>(44,044)</u>	<u>(53,227)</u>	<u>(8,353)</u>
<b>Increase in Net Assets</b>	1,337,026	53,227	(53,227)	1,337,026
<b>Net Assets, Beginning of the Year</b>	10,537,143	629,082	(629,082)	10,537,143
<b>Dividends Paid</b>	<u>          </u>	<u>(82,500)</u>	<u>82,500</u>	<u>0</u>
<b>Net Assets, End of the Year</b>	<u>\$ 11,874,169</u>	<u>\$ 599,809</u>	<u>\$ (599,809)</u>	<u>\$ 11,874,169</u>

**Floyd County Memorial Hospital**  
**Schedules of Patient Service Revenues – Hospital**  
**Years Ended June 30, 2006 and 2005**

	2006			2005		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Routine Services</b>						
Acute nursing care	\$ 2,670,165	\$ 2,670,165		\$ 2,574,180	\$ 2,574,180	
Nursery	93,193	93,193		78,365	78,365	
	<u>2,763,358</u>	<u>2,763,358</u>		<u>2,652,545</u>	<u>2,652,545</u>	
<b>Other Nursing Services</b>						
Operating room	1,893,828	417,225	\$ 1,476,603	1,729,579	528,169	\$ 1,201,410
Recovery room	196,528	27,548	168,980	177,120	32,670	144,450
Delivery room	114,342	114,342		95,878	95,878	
Emergency room	2,275,276	83,187	2,192,089	2,214,154	76,528	2,137,626
Home Health Agency				622,972		622,972
	<u>4,479,974</u>	<u>642,302</u>	<u>3,837,672</u>	<u>4,839,703</u>	<u>733,245</u>	<u>4,106,458</u>
<b>Other Professional Services</b>						
Central service and supply	245,184	95,226	149,958	203,757	75,050	128,707
Laboratory	3,754,637	524,668	3,229,969	3,563,475	594,258	2,969,217
Blood	179,936	61,994	117,942	172,590	54,634	117,956
Radiology	1,111,267	65,982	1,045,285	1,111,147	70,261	1,040,886
Electrocardiology	535,641	42,120	493,521	353,283	42,864	310,419
Ultrasound	266,120	14,011	252,109	264,958	18,965	245,993
Nuclear medicine	151,258	9,256	142,002	160,202	5,306	154,896
CT Scan	1,660,676	224,693	1,435,983	1,717,476	319,706	1,397,770
MRI	939,156	56,477	882,679	968,752	76,004	892,748
Pharmacy	1,548,331	704,143	844,188	1,518,027	698,575	819,452
Intravenous therapy	245,671	125,310	120,361	401,174	222,826	178,348
Respiratory therapy	1,086,430	426,626	659,835	1,131,446	414,228	717,218
Physical therapy	1,616,464	476,626	1,139,838	1,821,800	418,136	1,403,664
Occupational therapy	235,641	91,795	143,846	214,557	76,677	137,880
Speech pathology	254,332	14,013	240,319	311,977	9,111	302,866
Anesthesia	272,158	33,085	239,073	228,225	40,894	187,331
Clinics	898,691		898,691	742,651		742,651
	<u>15,001,593</u>	<u>2,966,025</u>	<u>12,035,599</u>	<u>14,885,497</u>	<u>3,137,495</u>	<u>11,748,002</u>
<b>Patient Service Revenue</b>	22,244,925	\$ <u>6,371,685</u>	\$ <u>15,873,271</u>	22,377,745	\$ <u>6,523,285</u>	\$ <u>15,854,460</u>
<b>Contractual Allowance</b>	<u>(5,467,384)</u>			<u>(5,763,378)</u>		
<b>Net Patient Service Revenue before Provision for Uncollectible Accounts</b>	16,777,541			16,614,367		
<b>Provision for Uncollectible Accounts</b>	<u>(607,116)</u>			<u>(595,130)</u>		
<b>Net Patient Service Revenue</b>	\$ <u>16,170,425</u>			\$ <u>16,019,237</u>		

**Floyd County Memorial Hospital**  
**Schedules of Other Operating Revenues – Hospital**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cafeteria	\$ 183,255	\$ 169,310
Specialty clinics	89,009	87,739
Office rental	31,324	30,146
Registration fees	4,007	7,838
Medical records transcripts	10,884	11,604
Other	<u>52,045</u>	<u>32,997</u>
	<u>\$ 370,524</u>	<u>\$ 339,634</u>

**Floyd County Memorial Hospital**  
**Schedules of Operating Expenses – Hospital**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>			<b>2005</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
<b>Nursing Services</b>						
Nursing administration	\$ 785,428	\$ 583,697	\$ 201,731	\$ 731,133	\$ 555,618	\$ 175,515
Routine care	2,093,283	1,422,627	670,656	1,903,175	1,309,734	593,441
Nursery	35,258	29,812	5,446	33,878	28,605	5,273
Operating room	804,811	297,249	507,562	762,796	292,082	470,714
Delivery room	18,963	15,538	3,425	16,791	13,448	3,343
Emergency room	975,629	391,417	584,212	946,371	386,648	559,723
Home Health Agency				476,760	294,777	181,983
	<u>4,713,372</u>	<u>2,740,340</u>	<u>1,973,032</u>	<u>4,870,904</u>	<u>2,880,912</u>	<u>1,989,992</u>
<b>Other Professional Services</b>						
Central service and supply	226,253	64,059	162,194	186,790	57,264	129,526
Laboratory	909,073	383,468	525,605	919,498	364,640	554,858
Blood	68,331		68,331	56,207		56,207
Radiology	710,798	398,713	312,085	687,911	390,622	297,289
Electrocardiology	110,513	46,652	63,861	102,459	44,097	58,362
Ultrasound	30,291		30,291	84,667		84,667
Nuclear medicine	56,362		56,362	58,661		58,661
Pharmacy	670,598	73,113	597,485	680,271	74,784	605,487
Intravenous therapy	52,894		52,894	60,643		60,643
Respiratory therapy	333,226		333,226	349,565		349,565
Physical therapy	659,036		659,036	663,577		663,577
Occupational therapy	82,208		82,208	71,299		71,299
Speech pathology	160,678	124,855	35,823	161,534	124,506	37,028
CT Scan	422,684		422,684	442,849		442,849
Medical clinic	178,081	54,552	123,529	177,855	52,896	124,959
Rural health clinic	964,610	348,516	616,094	775,777	334,478	441,299
Sleep studies	58,200		58,200	9,600		9,600
	<u>5,693,836</u>	<u>1,493,928</u>	<u>4,199,908</u>	<u>5,489,163</u>	<u>1,443,287</u>	<u>4,045,876</u>

(Continued)

**Floyd County Memorial Hospital**  
**Schedules of Operating Expenses – Hospital**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>			<b>2005</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
<b>General Services</b>						
Dietary	\$ 818,737	\$ 374,017	\$ 444,720	\$ 771,636	\$ 351,193	\$ 420,443
Operation of plant	577,943	106,510	471,433	499,632	102,289	397,343
Housekeeping	482,680	313,139	169,541	417,036	281,915	135,121
Laundry	<u>94,698</u>	<u>13,939</u>	<u>80,759</u>	<u>88,914</u>	<u>11,338</u>	<u>77,576</u>
	<u>1,974,058</u>	<u>807,605</u>	<u>1,166,453</u>	<u>1,777,218</u>	<u>746,735</u>	<u>1,030,483</u>
<b>Administrative Services</b>						
Medical records	361,005	215,447	145,558	348,153	206,026	142,127
Administration	1,922,396	814,674	1,107,722	1,731,096	755,778	975,318
Purchasing	110,426	77,461	32,965	96,613	69,299	27,314
Personnel	83,719	59,103	24,616	76,181	55,012	21,169
Insurance	<u>113,748</u>		<u>113,748</u>	<u>107,479</u>		<u>107,479</u>
	<u>2,591,294</u>	<u>1,166,685</u>	<u>1,424,609</u>	<u>2,359,522</u>	<u>1,086,115</u>	<u>1,273,407</u>
<b>Depreciation</b>	<u>664,748</u>		<u>664,748</u>	<u>613,956</u>		<u>613,956</u>
	<u>\$ 15,637,308</u>	<u>\$ 6,208,558</u>	<u>\$ 9,428,750</u>	<u>\$ 15,110,763</u>	<u>\$ 6,157,049</u>	<u>\$ 8,953,714</u>

**Floyd County Memorial Hospital**  
**Schedules of Patient Receivables and Allowance for**  
**Uncollectible Accounts – Hospital**  
**Years Ended June 30, 2006 and 2005**

**Schedules of Patient Receivables**

<u>Days Since Discharge</u>	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
0-30	\$ 1,942,248	\$ 1,844,451	47.65%	47.15%
31-60	595,656	518,878	14.62	13.27
61-90	163,447	207,308	4.01	5.30
91-120	115,010	144,344	2.82	3.69
121-150	112,387	121,919	2.76	3.12
151 and over	<u>1,146,869</u>	<u>1,074,726</u>	<u>28.14</u>	<u>27.47</u>
	4,075,617	3,911,626	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>176,256</u>	<u>178,056</u>		
	<u>4,251,873</u>	<u>4,089,682</u>		
Less				
Contractual allowances	602,962	684,567		
Allowance for uncollectible accounts	<u>1,198,000</u>	<u>1,109,000</u>		
	<u>1,800,962</u>	<u>1,793,567</u>		
	\$ <u>2,450,911</u>	\$ <u>2,296,115</u>		

**Allowance for Uncollectible Accounts**

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 1,109,000	\$ 987,400
Provision for year	607,116	595,130
Recoveries of accounts previously written off	<u>183,763</u>	<u>174,312</u>
	1,899,879	1,756,842
Less accounts written off	<u>701,879</u>	<u>647,842</u>
Balance, end of year	\$ <u>1,198,000</u>	\$ <u>1,109,000</u>

**Floyd County Memorial Hospital**  
**Schedules of Noncurrent Cash Transactions – Hospital**  
**Years Ended June 30, 2006 and 2005**

	<u><b>Total</b></u>
<b>Balance, July 1, 2004</b>	\$ 1,448,406
Deposits	722,376
Withdrawals	<u>(1,103,587)</u>
<b>Balance, June 30, 2005</b>	1,067,195
Deposits	787,443
Withdrawals	<u>(898,670)</u>
<b>Balance, June 30, 2006</b>	\$ <u><u>955,968</u></u>

# Floyd County Memorial Hospital

## Schedule of Officials – Hospital

Year Ended June 30, 2006

Name	Title	Term Expires
<b>Board of Commissioners</b>		
Larry Richards	Chairman	2007
Betty Held	Secretary	2006
Ross Enabnit	Treasurer	2006
Myrna Jakoubek	Member	2008
Mike Marth	Member	2008
<b>Hospital Officials</b>		
Bill Faust	Administrator	
Ronald James	Assistant Administrator – CFO	



**Floyd County Memorial Hospital**  
**Schedules of Financial and Statistical Data – Hospital**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Patient Days (Exclusive of Swing-Bed)</b>		
Medicare	1,900	1,944
Medicaid	182	237
Private and other	<u>603</u>	<u>612</u>
	<u><u>2,685</u></u>	<u><u>2,793</u></u>
<b>Medicare and Medicaid Percent</b>	78%	78%
<b>Percent of Occupancy</b>	29%	31%
<b>Discharges (Exclusive of swing-bed)</b>		
Medicare	575	583
Medicaid	73	84
Private and other	<u>224</u>	<u>235</u>
	<u><u>872</u></u>	<u><u>902</u></u>
<b>Average Length of Stay in Days</b>	<u><u>3.1</u></u>	<u><u>3.1</u></u>

**Floyd County Memorial Hospital**  
**Schedules of Supplies and Prepaid Expense – Hospital**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Supplies</b>		
Storeroom	\$ 171,016	\$ 184,761
Pharmacy	128,433	124,038
Surgery	214,237	193,596
Dietary	<u>7,281</u>	<u>8,491</u>
	<u>\$ 520,967</u>	<u>\$ 510,886</u>
 <b>Prepaid Expense</b>		
Insurance	\$ 29,465	\$ 30,852
Maintenance contracts	52,372	51,213
Memberships and dues	6,969	7,162
Workers' compensation insurance	<u>5,286</u>	<u>5,375</u>
	<u>\$ 94,092</u>	<u>\$ 94,602</u>



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**Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Commissioners  
Floyd County Memorial Hospital  
Charles City, Iowa

We have audited the financial statements of Floyd County Memorial Hospital as of and for the year ended June 30, 2006 and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Compliance with Certain Provisions of Iowa Law***

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2006. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

#### ***Official Depository Banks***

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

#### ***Certified Budget***

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital expenditures during the year ended June 30, 2006 did not exceed amounts budgeted.

#### ***Questionable Expenditures***

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

#### ***Travel Expense***

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

#### ***Business Transactions***

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Commission.

#### ***Commission Minutes***

No transactions were found that we believe should have been approved in the Commission minutes but were not.

### ***Deposits and Investments***

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

### ***Unclaimed Property***

Prior to November 1, 2005, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2006 for the year ended June 30, 2005.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Action – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

### ***Disbursements for Equipment and Supplies***

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for having a policy for procuring equipment under bidding and contracting requirements.

Condition – The Board of Commissioners has not adopted a policy for procuring equipment under bidding and contracting requirements.

Context – A written policy is not in effect.

Effect – Requirements were not met under Chapter 347.13(3) of the Code of Iowa.

Cause – A written policy is not in place.

Recommendation – Management should establish a policy to set forth the requirements for procuring equipment under bidding and contracting requirements.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform suggested action to conform to this requirement.

### ***Compensation of Hospital Administrator, Assistants and Employees***

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

### ***Internal Revenue Service Information Returns and Outside Services***

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

### ***Publication of Bills Allowed and Salaries***

Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category ...” One exception was noted below:

Criteria or Specific Requirement – Hospital management is responsible for publishing the quarterly bills allowed and salaries paid as required by the Code of Iowa.

Condition – Bills allowed and salaries paid were not published during the year ended June 30, 2006.

Context – The necessary publications were not published.

Effect – Requirements were not met under Chapter 347.13(14) of the Code of Iowa.

Cause – Necessary publications were not made in the current fiscal year.

Recommendation – The Hospital should publish the schedule of bills allowed and salaries by job classification in accordance with Chapter 347.13(14) of the Code of Iowa and a Supreme Court decision dated September 18, 1996.

Views of Responsible Officials and Planned Corrective Actions – Management believes that they are not required to publish the information. However, management will consider this recommendation.

We also noted certain additional matters that we reported to the Hospital’s management in a separate letter dated August 18, 2006.

Board of Commissioners  
Floyd County Memorial Hospital  
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This report is intended solely for the information and use of the governing body, management and the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
August 18, 2006

**Floyd County Memorial Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2006**

Reference Number	Finding
None	





Board of Commissioners  
Floyd County Memorial Hospital  
Charles City, Iowa

As part of our audit of the financial statements of Floyd County Memorial Hospital for the year ended June 30, 2006, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all opportunities for improvement. We observed the following matters and offer these comments and suggestions. Previously we made observations as a result of our 2005 audit engagement in a letter dated August 18, 2005.

### ***Standard Accounting Policies and Procedures***

There is little written documentation of accounting or data processing procedures. Internal control is strengthened by identifying and documenting accounting procedures and responsibilities of accounting personnel. This will also be important for the compliance program. We recommend that consideration be given to developing written documentation of controls and procedures to strengthen the Hospital's ability to continue to operate efficiently in the event of unexpected employee turnover. We understand the Hospital will evaluate the accounting policies and procedures to supplement the policies with those included with the new information system being implemented.

### ***Risk Assessment Audit Standards***

During the past year, the AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards numbers 104 through 111). These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in-depth understanding of the organization and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the organization is doing to mitigate the risks. These standards are effective for fiscal years beginning on or after December 15, 2006.

These standards will have a significant impact on the Hospital's audit once they become effective, which will most likely be June 30, 2008.

\* \* \*

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
August 18, 2006